

# FOR ESIGHT

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## Winners and Losers: The Era of Inequality Continues

By Sheldon Danziger and Deborah Reed

Income inequality in the United States has grown substantially in the past quarter century. Even the current period of sustained economic growth has done little to stem the tide. Market forces are unlikely to alleviate the hardship for low-income families who have borne the brunt of economic changes in the near future. As inequality remains high, we propose several public policy reforms that would raise living standards for low-income families and workers.

### A Quarter Century of Growing Inequality

Census Bureau statistics report that family income inequality (according to numerous summary measures) reached a postwar low in the late 1960s and climbed almost continuously from that time. Inequality has been higher in the 1990s than in any decade since the end of the second World War. Most industrialized nations have also experienced growing income inequality, but the rise in the United States has been more rapid and started from a higher level. This differential experience is due primarily to the fact that other countries have pursued labor market and tax and transfer policies that have done more to counter the increased inequality generated by market forces.

We measure inequality by the relative income gap between the upper and lower “middle class,” that is, the ratio of income at the 75th percentile to that of the 25th percentile—the 75/25 ratio. The black line in Figure 1 traces that ratio from 1973–1997 and shows that inequality in family income rose over that time. In 1973, an upper-middle income family had 2.4 times the income of a lower-middle income family. By 1997, the income ratio had increased to 3.0, only slightly lower than the highest value of 3.1 in 1993.

Although inequality has increased over the entire period, different parts of the income distribution had differing ex-

periences during each decade. During the 1970s, inequality rose because the income of families in the upper-middle grew faster than the income of those in the lower-middle of the distribution. Between 1973 and 1979, income at the 75th percentile grew by 9 percent from \$64,200 to \$70,000 while income at the 25th percentile grew by 4.5 percent from \$26,300 to \$27,500. However, during the 1980s and 1990s, increased inequality resulted from rising incomes for families at the upper middle but falling incomes for those at the lower middle. By 1997, family income at the 75th percentile

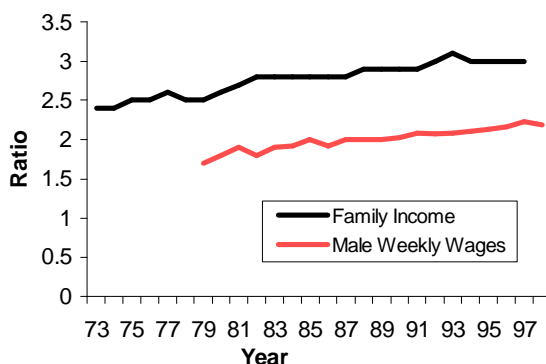
had grown to \$80,500 while income at the 25th percentile had fallen to \$26,900 (incomes in 1998 dollars, adjusted to represent a family of four).

Looking at the extremes of the distribution, family income fell at the bottom and grew at the top over the last quarter century. The income of families at the 10th percentile fell 7 percent between 1973 and 1997 (see Figure 2). At the 90th percentile income grew 38 percent. Figure 2 also shows

that inequality increased throughout the distribution, as the size of each bar increases from the lowest through the median to the highest income families.

Changes in inequality can also be evaluated by comparing the percentage of people who are poor with the percentage who are “rich.” We define as “rich” persons living in families with incomes more than seven times the poverty line (about \$105,000 for a family of four in 1997 using an

**Figure 1: Ratios of Family Income and Male Earnings of the Upper-Middle Class to that of the Lower-Middle Class**



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alternative price index). Between 1973 and 1997, the percent of poor increased by 1.2 percentage points to 11.8 percent of all persons while the percent of rich increased by 8.1 percentage points to 14.3 percent of persons. This change further indicates that economic growth has raised incomes at the top of the distribution, while absolute incomes at the bottom have stagnated or fallen.

#### Despite 1990s Economic Expansion, Income Gap Remains High

The robust economic recovery of the 1990s has produced the lowest unemployment and inflation rates in 30 years and has lifted living standards across the income distribution. However, families below the median have not yet fully recovered from the income stagnation and recessions of the early 1980s and early 1990s. Family income in the lower middle of the distribution remains a few percentage points below its 1989 and 1979 peak levels, whereas the upper middle has increased a few percentage points since 1989 and 15 percent since 1979. As Figure 1 shows, as the economy recovered from the re-

cession of the early 1990s, family income inequality fell slightly. But as of 1997, the 75/25 ratio was still higher than the levels of the last three business cycle peaks (1973, 1979 and 1989).

Male earnings are the largest single component of family income, and changes in their distribution account for much of the increased family income inequality. The current economic expansion brought some real growth to the bottom of the male wage distribution between 1996 and 1998. However, the 10th and 25th percentiles of weekly wages for full-time male workers, \$300 and \$432 respectively, remain more than 6 percent below their level at the 1989 business cycle peak and more than 15 percent below that of the 1979 peak. The 75/25

ratio for male weekly wages was just below 2.2 in 1998, slightly under its highest value, attained in 1997, but well above the levels of the 1979 and 1989 business cycle peaks (1.7 and 2.0, respectively; see Figure 1).

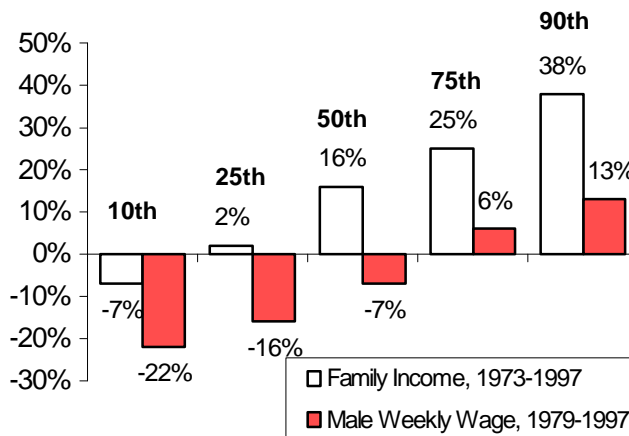
Male earnings inequality rose over the 1979-1997 period because real earnings fell for workers at the median and below and grew for those at the top of the distribution. Figure 2 shows a decline of 22 percent in male earnings at the 10th percentile. The decline was 16 percent at the 25th percentile and 7 percent at the median. Over the same period, male earnings increased 6 percent at the 75th percentile and 13 percent at the 90th percentile.

#### Causes of the Increased Inequality

Most economists agree that the main cause of growing earnings inequality is the rising value of worker skill. For example, in 1979, the median weekly wage of full-time male wage and salary workers with college degrees was 29 percent higher than the wage of men with high school diplomas only. By 1998, college graduates had a 68 percent edge. Over this period, real wages increased by 8 percent for male college graduates but declined by 18 percent for high school graduates. For women, the weekly wage gap between college and high school graduates increased from 43 percent in 1979 to 79 percent in 1998. There was also an increase in the experience differential: Earnings of workers with substantial labor market experience increased relative to those of new labor market entrants.

There is some disagreement about both the relative importance of various causes of the rising value of skill and how much other factors contribute to rising inequality. No single factor can account for most of the inequality increases, but several factors are important. Labor-saving technological

**Figure 2: Percentage Change in Real Family Income & Male Weekly Wages**



# FORESIGHT

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changes have increased the demand for skilled workers who can run sophisticated equipment and simultaneously reduced the demand for less-skilled workers, many of whom have been displaced by automation. Global competition has increased worldwide demand for the goods and services produced by skilled workers in high-tech industries and financial services. Lower-skilled workers increasingly compete with low-wage production workers in developing countries. Immigration has increased the size of the low-wage workforce and competition for low-skilled jobs. Institutional changes, such as the decline in the real value of the minimum wage and shrinking unionization rates, also moved the economy in the direction of higher earnings inequality.

Factors other than rising earnings inequality also contributed to the increase in family income inequality. In particular, changes in family structure, especially the growing share of female-headed households, increased the number of low-income families. The increased tendency for high-earning men to be married to high-earning women further separates the incomes of dual-earning couples from those of female-headed households.

#### Implications for the Future

Income inequality has trended upwards for a quarter century. The family income gap and the earnings gap between more-educated and less-educated workers are much higher now than they were in 1973. The long and robust economic recovery has generated real income growth across the distribution but has done little to reverse the trend. Because growing inequality is predominantly due to long-term structural changes in labor markets that we expect will continue—especially technological changes and globalization—income inequality is likely to remain high in the United States in the coming decade.

The current recovery produced a small decline in the income gap between families in the upper middle of the distribution and those in the lower middle. The greatest single year of improvement occurred between 1993 and 1994. The 1997 income gap is so large, however, that it would take nine additional years of declining inequality of this magnitude for family income inequality to return to 1979 levels and almost twelve years to reach 1973 levels.

Because the economic returns to skills have increased so much, the labor market now provides incentives for workers and young people to upgrade their skills through education and training. Indeed, the percentage of high school graduates entering college has increased in the last few years. The resulting growth in supply of skilled workers will eventually reduce labor market inequities somewhat. However, it will take many years for such an adjustment to have a large effect. Thus, the wages of less-skilled workers are likely to remain low in the interim.

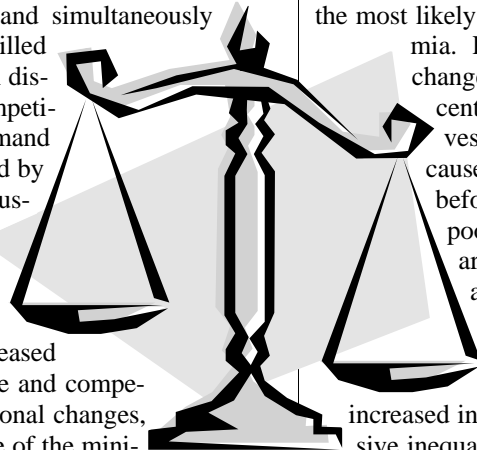
Furthermore, those still in school and young workers are the most likely to respond to the incentives due to wage premia. Prime-age workers who have been hurt by changes in the labor markets over the last quarter century are unlikely to undertake substantial investments in education or training programs because they have relatively few years of work left before retirement. In addition, children from the poorest families and racial/ethnic minorities who are concentrated in the inner cities typically attend lower-quality schools, are more likely to drop out of high school, and are less likely to attend college than are children from higher-income families. Taken together, the increased inequality of the last quarter century and pervasive inequalities in school quality suggest that the supply responses of disadvantaged young people to the increased wage premia are likely to be smaller than average.

#### Policy Directions

We are concerned about increased inequality over the last quarter century because of its effects on both the absolute and relative well-being of low-income families and workers. Even without a decline in income for those at the bottom, we care about rising inequality because, as Adam Smith noted, the minimum acceptable standard of living tends to be higher the richer the society. Moreover, according to recent Nobel laureate Amartya Sen, the absolute well-being of the poor in terms of their ability to "participate in the standard activities of the community" depends on their relative well-being in terms of resources.

Rising income inequality is likely to make equality of opportunity harder to attain. The children of the poor are increasingly subject to lower-quality education, lower-quality health care, and more dangerous communities. Concerns about equal opportunity are particularly relevant for children from female-headed households and those who are racial and ethnic minorities because they are far more likely to grow up in poor families.

Many of the economic forces that contributed to the rising income inequality have also brought positive changes in our economy. Technological changes and increased globalization raise the average standard of living by bringing new goods to consumers and producers and by reducing their prices. The rising value of skill provides incentives for people to upgrade their own skills, which can be financially and personally rewarding. We see no reason to attempt to lower inequality by



**The 1997 income gap is so large ... that it would take nine additional years of declining inequality of this magnitude for family income inequality to return to 1979 levels and almost twelve years to reach 1973 levels.**

slowing technological changes or adopting protective barriers to trade, even if there were feasible options to do so.

The United States has pursued policies to promote free trade and technological advancement in the interest of growth and efficiency. Those policies have produced winners and losers. Government policies should play a greater role in reducing the resulting inequities by aiding the low-income families and less-skilled workers who have borne the brunt of labor market changes.

Reasoned policy in this area must take into account two realities. First, the recent welfare reform experience demonstrates that the public favors policies that promote work. Welfare reform has dramatically reduced cash assistance for people who are capable of working, but it has offered expanded wage and child care subsidies. Second, education and well-designed training programs can improve the earnings of workers and promote economic opportunity in the long run. However, the effects of these policies will be slow and are unlikely to substantially improve the well-being of low-income workers in the coming decade. Thus, we support an expansion of labor market-oriented antipoverty policies that raise the incomes of the least-skilled workers.

For people who are able to find jobs, the key elements of support are expanded wage supplements and refundable child care tax credits. The Earned Income Tax Credit (EITC), substantially expanded in 1993, has done much to offset the decline in real wages for workers at the bottom of the earnings distribution who work year round and who have children. However, only a small percentage of low-wage workers who do not have children receive the EITC, and their maximum credit is only a few hundred dollars. Almost all working poor and near-poor families with children are now eligible for the EITC, and they are eligible for substantial credits. For example, a single mother with two children who works year round, full time at the minimum wage receives about \$3600. The EITC for childless workers should be raised substantially. This change would make the federal income tax more progressive and increase their living standards without taking them through the welfare system. Several states have also adopted their own EITCs for families with children, something other states should consider, especially those that continue to impose income taxes on the working poor.

In addition, even though the employment rate and earnings of single mothers have increased substantially in the past five years, many, especially former welfare recipients, have great difficulty working full-time, full-year when their children are young. As a result, many remain poor despite their increased earnings and the expanded EITC. An increase in the minimum wage would be particularly beneficial for this group, as would increases in public subsidies for child care. Many of the working poor spend a substantial portion of their earnings on child care. The Dependent Care Credit

(DCC) provides tax relief in the form of a nonrefundable credit that depends on family earnings and the amount spent on child care. However, it only benefits families with positive income tax liabilities. If the DCC were made refundable, it would raise the disposable income of single mothers and other low-income working families who spend substantial sums on child care but do not owe federal income tax. This reform would also make the federal income tax more progressive.

Finding a job has become more difficult for less-skilled workers over the past quarter century. In mid-1999, even with the lowest unemployment rate in 30 years, many less-skilled workers were unable to find work. For those who want to work but are unable to find regular employment, transitional public service "jobs of last resort" at

wages just below the minimum can provide the basis for a work-oriented safety net. Such "jobs of last resort" are more important now that we have "ended welfare as we know it." During the next recession, many former welfare recipients will find themselves out of work and without recourse to cash assistance because of time limits, sanctions, and other aspects of welfare reform.

The good news is that the current economic recovery seems to have slowed and might have ended the quarter century trend toward rising income and earnings inequality. The bad news is that there is little evidence that inequality will return to the level of the late 1970s any time soon, much less to the lower levels of the late 1960s and early 1970s. Given that this era of inequality continues, we have offered several suggestions for work-oriented policy reforms, which at a relatively modest cost, could greatly benefit those workers and families who have been most disadvantaged by the structural economic changes we documented.✍

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## FORESIGHT SUBMISSIONS POLICIES

The Kentucky Long-Term Policy Research Center accepts unsolicited articles for publication in Foresight. Submitted articles should focus on emerging trends or issues likely to influence Kentucky's future or on the future implications of current policies. Articles should not exceed 3,000 words in length. They can be submitted electronically, by fax or by mail. See page 2 for addresses.



# Income Inequality Trends in Kentucky

By Amy Watts

While income distribution trends in Kentucky have paralleled those of the nation, the divide is deeper here. Using data on family income from the March Current Population Survey, we examine trends in income inequality for Kentucky and the United States.<sup>1</sup> As shown in Figure 1, Kentucky ratios were similar to U.S. ratios in 1977, with income at the 75th percentile approximately 2.5 times greater than income at the 25th percentile.<sup>2</sup> Over the next two decades, the gap widens to 1997 income ratios of 3.1 for Kentucky and 3.0 for the United States.

As both the nation and state began to recover from the economic downturn of the early 1990s, income ratios declined somewhat from their highest points in 1993 of 3.5 for Kentucky and 3.1 for the nation. However, despite recent economic growth and its positive effect on income distribution, the overall 20-year trend in these ratios is an increasing one. The 1997 values remain substantially higher than the gap of the late 1970s.

Comparison of state and national income ratios also reveals that Kentucky's income gap, as defined by the 75/25 ratio, remains greater than the nation's for much of this period. Not since 1977 has Kentucky's income gap fallen below that of the nation's and only rarely have the two been equal.<sup>3</sup> Not surprisingly, given the recession of the early 1990s, 1992-1994 saw the greatest differences between these two ratios as Kentucky's income ratio peaked at a level of 3.5, while the national ratio peaked at 3.1.<sup>4</sup> In addition, the largest decreases occurred in the two years following this peak, as Kentucky and the nation began to recover from the economic recession of the early 1990s. However, national and state declines over the past decade have been insufficient to restore income inequality to pre-1980s levels, and income inequality remains quite high compared to that era.

The changing composition of Kentucky's income distribution highlights the source of the widening gap between the lower and upper middle classes. The 1980s proved to be especially hard on the lower end of the income distribution, as family income declined at the median and below, while incomes at the 75th percentile and above increased (in 1998 dollars adjusted to represent a family of four). Real income at the 25th percentile dropped 8 percent, from \$24,046 in 1979 to \$22,105 by 1989. During this same period, real income at

the 75th percentile increased 9 percent, from \$63,763 to \$67,099. Family income increased at both the 25th and 75th percentiles from 1989 to 1997; however, income of the upper middle class grew at a faster rate than lower middle class income—further deepening the divide. Income at the 75th percentile grew 19 percent, to \$79,522, from 1989 to 1997, while income at the 25th percentile grew only 13 percent, to \$25,048. So, the substantially higher income disparity between the classes in the 1990s, as compared with that of the late 1970s, can be attributed to declines in the income of the lower middle class and the inability of its eventual income growth to offset the continual and higher income growth of the upper middle class. Figure 2 illustrates this point further,

showing a 25 percent increase in family income in Kentucky at the 75th percentile, compared to a mere 1 percent for the lower-middle class from 1977 to 1997.

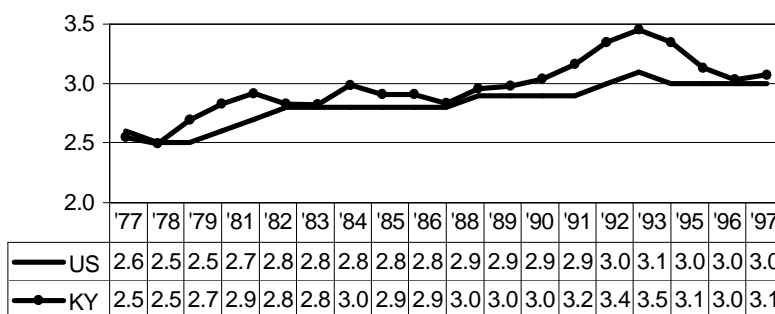
Analysis reveals similar and more pronounced trends in income disparity at the extremes of the distribution as well. Figure 2 shows income changes in Kentucky at the 10th

and 90th percentiles from 1977 to 1997. In contrast to the upper and lower middle classes, real income at the 10th percentile actually dropped during this 20-year period for both Kentucky and the United States. However, the drop was greater for Kentucky. At the opposite extreme, Kentucky's 90th percentile income increased by the same rate as the rest of the country. Therefore, while higher incomes continue to rise, lower incomes declined faster here than nationally.

## Behind Kentucky's Income Gulf

Kentucky's income divide is likely the result of a combination of forces. First, as the value of and demand for high-skill workers increases relative to low-skill workers, the wages of high-skill workers may be driven up in regions with a lower supply of educated workers, further deepening income divides. Kentucky not only lags behind the rest of the country in educational status, but postsecondary enrollment and graduation rates trail as well. In 1996, 59 percent of U.S. high school graduates enrolled in private or public institutions within a year of graduation compared with 50 percent here. Further, a 1999 Council on Postsecondary Education study found that only 36.7 percent of first-time, full-time baccalaureate students who enroll in Kentucky's four-year colleges finish their education within six years. Nationally, 42.9 percent of students in public institutions graduate within five years.

**Figure 1. Ratio of Upper- to Lower-Middle Class Family Income, Kentucky and the US, 1977-1997**



Source: KLTPRC analysis of CPS data, Sheldon Danziger and Deborah Reed

Since wages are the major component of income, a comparison of relative wages between high-school and college graduates further illustrates the effect education and skill have on income inequality. A recent report found weekly earnings for college-educated men in Kentucky exceeded those for high school graduates by about 40 percent in the late 1960s and increased to around 60 percent by the mid-1990s.<sup>5</sup> Similar trends in female weekly earnings were found.

On the flip side, we find a relatively higher supply of and declining labor market opportunities for low-skill workers in Kentucky. High school educated workers are relatively abundant here compared to the nation, further depressing wages. Opportunities are also declining for these workers. A recent report found that “changes in occupational mix in Kentucky

The trend toward smaller, single-headed and single-person households may also have had a larger negative effect in Kentucky. While the state population grew by 8 percent between 1980 and 1998 the number of households increased 18 percent. During this same period, the U.S. population increased 20 percent while households rose by 25 percent.

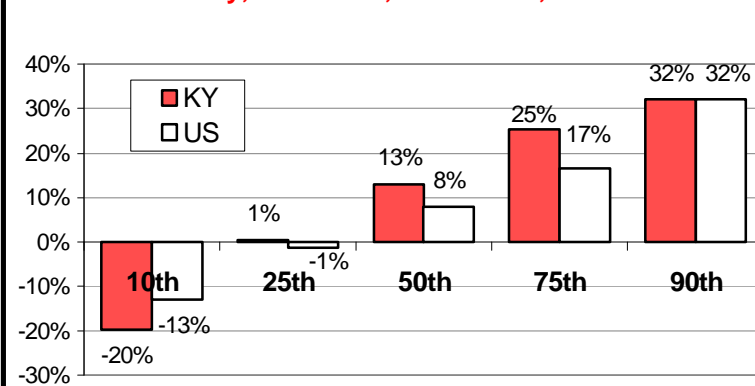
#### Policy Options for Kentucky

Technology and the global economy are clearly creating winners and losers, but income inequality suggests a poor distribution of the societal benefits they offer. This is especially true for Kentucky. The economic boom of the 1990s has served our citizens well, increasing income at all levels, but it has not been great enough to compensate for the deterioration of income in the 1980s and to restore 75/25 ratio to its pre-1980 level.

A variety of options are available to both state and federal policymakers who want more equal benefits from our buoyant economy. These include, but are not limited to, a more inclusive health care system, higher unemployment insurance, state adoption and federal expansion of the earned income tax credit, larger subsidies for child care and housing, or tax cuts for low-income workers.

Ultimately, the emphasis on excellence and quality in education at all levels will almost certainly narrow the income divide and temper its consequences in Kentucky. Data consistently show that the economic returns to higher education have been increasing, and they will likely continue, as the pace of globalization and technological change show little sign of slowing. Policies that promote enrollment, persistence and graduation at all levels are key. However, the effects of education reform will not be fully realized for many years while the consequences of income inequality have been accumulating for more than 20 years. ✍

**Figure 2: Percent Change in Real Family Income, Kentucky, 1977-1997, and the US, 1973-1997**



Source: KLTPRC analysis of CPS data, Sheldon Danziger and Deborah Reed

suggest that the Kentucky economy has been slowly replacing low human capital jobs with high human capital jobs, and that this replacement has been occurring more rapidly in Kentucky than the nation.”<sup>6</sup>

By some estimates, approximately one third of the increase in the national earnings gap over the past 20 years can be attributed to “[t]he deterioration of unions and the minimum wage ...”<sup>7</sup> In 1997, the real value of the minimum wage was 18 percent less than in 1979. Increases in the 1990s were not enough to compensate for the 31 percent drop during the 1980s.<sup>8</sup> Some argue that differing skill levels are not compensated any more or less than they were in the past, but rather that worker bargaining power is slipping in the face of an increasingly deregulated, global marketplace.<sup>9</sup> While U.S. unionization rates declined from 20 percent in 1983 to 14 percent in 1997, union membership in Kentucky declined from 17 to 10 percent during the same period.<sup>10</sup>

Other possible reasons for Kentucky’s greater income gap include changes in its labor force. From 1989 to 1996, the labor force participation rate of women increased 3.5 percent in Kentucky, compared to a U.S. increase of 1.5 percent. At the same time, the labor force participation of Kentucky men fell 3.8 percent while the U.S. rate declined by only 2.5 percent. Women remain concentrated in lower-paying occupations in the service and retail trade sectors in Kentucky, further deepening the income divide.

#### Notes

<sup>1, 2, 3</sup> Complete technical appendices are available upon request.

<sup>4</sup> Kentucky’s relatively greater reliance on manufacturing, combined with the cyclically sensitive nature of the industry, could help explain the disproportionate impact of the recession here. Figure 1 shows the difference between U.S. and Kentucky income ratios in 1994, before the eventual recoveries of both from the economic shock of the 1990-1991 recession.

<sup>5</sup> Mark C. Berger, “Education and Earnings in Kentucky, 1964-1996,” *1998 Kentucky Annual Economic Report* (Lexington, KY: University of Kentucky Center for Business and Economic Research, 1998): 19-24.

<sup>6</sup> The University of Kentucky Gatton College of Business and Economics Center for Business and Economic Research, *Long-Term Trends in the Kentucky Economy* (Lexington, KY: Author, 1999): 40.

<sup>7</sup> Louis Uchitelle, “Making Sense of a Stubborn Education Gap,” *The New York Times* 23 July 2000: 4-3.

<sup>8</sup> Jared Bernstein, Elizabeth C. McNichol, Lawrence Mishel, Robert Zahradnik, *Pulling Apart: A State-by-State Analysis of Income Trends* (Washington, D.C.: Center on Budget and Policy Priorities and Economic Policy Institute, 2000).

<sup>9</sup> Bernstein et al.; David Howell, “Skills and the Wage Collapse,” *American Prospect* 19 June-3 July 2000: 74-77.

<sup>10</sup> March Supplement to the Current Population Survey. Union membership increased slightly in Kentucky to 12 percent in 1999.

# Conference to Feature Panel of Distinguished Kentuckians

The seventh annual conference of the Kentucky Long-Term Policy Research Center will feature a distinguished panel of Kentucky leaders who will assess the state's progress toward the realization of a citizen vision for the future.

The panel discussion is slated for the morning of the Center's one-day conference on November 14, 2000, at the Northern Kentucky Conference Center in Covington. This year's conference is being held in conjunction with Kentucky Leaders for the New Century which will present a half-day session on the New Economy on the afternoon of November 13, at the same location.

The Center monitors the state's progress toward a citizen vision for the future which was developed in 1994, along with 26 long-term goals to advance its realization. The vision statement was based on citizen input gathered in a series of town meetings held across the state as part of the Visioning Kentucky's Future project. The Center publishes a biennial report on the 26 long-term goals, the most recent of which is *Measures and Milestones 2000*. Included in the report are results of a survey of Kentucky citizens about progress toward each of the goals and a comparison of the state's status with the nation, the region, or surrounding states.

Members of the panel of leaders convened for the Center's annual conference were drawn from the public, private, and nonprofit sectors. They will respond to essentially the same question the Center posed to citizens in 1997 and 1999 statewide surveys, "Are we moving forward, standing still, or losing ground?" The results of those surveys will also provide a foundation for this discussion of the issues that matter to Kentuckians.

Panelists will include:



**Walter A. Baker.** A Glasgow attorney and current member of the Council on Postsecondary Education; a former member of the General Assembly; and a former Kentucky Supreme Court Justice.

**Betty Bayé.** An editorial writer and columnist for *The Courier-Journal*, prominent civic leader, and author of a nationally syndicated column, the novel *The Africans*, and numerous other works.

**John Berry, Jr.** A New Castle attorney, former member of the General Assembly where he served as Majority Floor Leader in the Senate, and former president of the Burley Tobacco Growers Cooperative, for which he now serves as counsel.



**Paul Chellgren.** Chairman of the Board and CEO of Ashland Inc., and director/trustee of, among others, PNC Bank, Medtronic, University of Kentucky, Centre College and the American Petroleum Institute.

**Martha Layne Collins.** Former Governor of



Kentucky, now an Executive Scholar in Residence at Georgetown College; former President of St. Catharine College in Springfield, Clerk of the Kentucky Supreme Court, and teacher.



**Gordon Davies.** President of the Kentucky Council on Postsecondary Education, a former professor and the former director of the State Council of Higher Education for Virginia (1977-1997), which guides one of the nation's most prominent university systems.

**Wendell Ford.** Retired U.S. Senator and former Governor of Kentucky, now a Senior Legislative Advisor to Dickstein, Shapiro, Morin & Oshinsky, a lecturer at the University of Kentucky's Martin School of Public Policy and Administration, and architect of an Owensboro education center that will encourage interest in government at all levels.



**Nancy Jo Kemper.** Executive Director, Kentucky Council of Churches, ordained Christian Church minister, and an activist on behalf of issues such as gun control, church-state separation, and death penalty abolition.

**Kris Kimel.** President and founder of the Kentucky Science and Technology Corporation, formerly an Executive Assistant to Kentucky's Attorney General and Chief Administrative Assistant to the Lieutenant Governor.



**James Klotter.** Kentucky's State Historian, Professor of History at Georgetown College, former Executive Director of the Kentucky Historical Society, and author of, among other titles, *A New History of Kentucky* and an associate editor of *Kentucky Encyclopedia*.

**Sylvia Lovely.** Executive Director and Chief Executive Officer of the Kentucky League of Cities, an attorney and member of the Morehead State University Board of Regents.



**Gerald Smith.** An Associate Professor of History and Director of African-American Studies and Research at the University of Kentucky, author of *Black Educator in the Segregated South* and numerous other works.

**Jane Stephenson.** Founder, former Executive Director of New Opportunity School for Women in Berea, former professor, teacher, and prominent civic leader.





# CONFERENCE AGENDA & FEATURED SPEAKERS

## Kentucky and the New Economy

Presented by Kentucky Leaders for the New Century  
with financial support from Fidelity Investments, Ashland Inc., and Delta Air Lines

**MONDAY, NOVEMBER 13, 2000**

**REGISTRATION** 11:30 a.m.–1:00 p.m.

**KEYNOTE ADDRESS** 1:00 p.m.–2:00 p.m.

**Chuck Martin.** Online publisher, lecturer, marketer and chairman and CEO of Net Future Institute, a US-based think tank focusing on the future of the Internet and e-commerce, Martin is widely regarded as a New Economy visionary. A pioneer in the interactive marketplace, Martin's *New York Times* bestseller, *The Digital Estate*, provided a strategic guide for doing business on the Internet. His latest book is *Net Future*.



**BREAK** 2:00 p.m.–2:15 p.m.

**CONCURRENT SESSIONS** 2:15 p.m.–3:15 p.m.

**1. Government's Role in the New Economy** How do we define and leverage government's role in the digital age?

**Moderator:** Craig Greenberg, CEO, General Counsel, iVisionary Ventures  
**Panelists:** John Y. Brown III, Secretary of State; George Seitz, CTO, Technology Officer, City of Louisville; Adona Valicenti, Chief Information Officer, State of Kentucky

**2. Transitioning from "Bricks and Mortar" to "Clicks and Mortar"** How do we encourage more Kentucky firms to embrace New Economy?

**Moderator:** Jim Gray, James N. Gray Company  
**Panelists:** Bill Carey, Executive Vice President, Fidelity Investments; Kristy Folkwein, Director, Information Technology Solutions, Ashland; Larry Jones, University of Kentucky Department of Agriculture

**BREAK** 3:15–3:30 p.m.

**CONCURRENT SESSIONS** 3:30–4:30 p.m.

**1. Educating New Economy Citizens** As Information Age tools become more affordable, how do we create new learning opportunities?

**Moderator:** Rep. Jon Draud, Kentucky General Assembly  
**Panelists:** Vicki Fields, District Technical Coordinator, Kenton County Schools; Mary Beth Susman, CEO, Kentucky Commonwealth Virtual University; Craig True, State Board of Education; William Wilson, Deputy Executive Director for Education and Outreach, KET

**2. Bridging the Digital Divide** How do we close the gap between the information "haves" and "have-nots"?

**Moderator:** Ernest Yanarella, Professor, Department of Political Science, University of Kentucky

**Panelists:** Johnathan Holifield, Vice President for Electronic Commerce, Cincinnati Chamber of Commerce; Jim Nelson, Kentucky Department of Libraries and Archives; Benjamin Richmond, President & CEO, Louisville Urban League; Doug Robinson, Governor's Office Technology

## Challenges for the Next Century

The seventh annual conference of  
KENTUCKY LONG-TERM POLICY RESEARCH CENTER

**TUESDAY, NOVEMBER 14, 2000**

**REGISTRATION** 7:45 a.m.–8:45 a.m.

**WELCOME** 8:45 a.m.–9:00 a.m.

**Dan Hall** Chair, Kentucky Long-Term Policy Research Center Board of Directors

**THE HELLARD AWARD** 9:00 a.m.–9:30 a.m.

The Fourth Annual Vic Hellard Jr. Award for Service in the Interest of the Commonwealth's Future and in memory of the former Legislative Research Commission Director is presented.

**PRESENTATION** 9:30 a.m.–10:15 a.m.

**The Forces of the Future** Center staff outline the economic and social trends, forces, and changes that are likely to influence Kentucky in the early years of the next century.

**BREAK** 10:15 a.m.–10:30 a.m.

**PANEL DISCUSSION** 10:30 a.m.–Noon

**Is Kentucky making progress?** Bill Goodman, host of *KET Kentucky Tonight*, leads a panel of distinguished Kentuckians (see page 7 story) through a series of questions about Kentucky's future. The panel will consider whether Kentucky is making progress, standing still, or losing ground on issues that are vitally important to our long-term future. Specifically, the panel will focus on a citizen vision crafted in 1994 as part of the Visioning Kentucky's Future Project and 26 long-term goals aimed at its realization; how we, as a Commonwealth, can attain this vision; and where we most need to focus our energies and resources.



**Moderator:** Bill Goodman, host of *KET Kentucky Tonight*

**Panelists:** **Walter Baker**, attorney, former member of the Kentucky Supreme Court and the General Assembly; **Betty Bayé**, *Courier-Journal* columnist, writer and civic activist; **John Berry, Jr.**, attorney, counsel for Kentucky tobacco interests, and former member of the Kentucky General Assembly; **Paul Chellgren**, chairman and CEO, Ashland; **Martha Layne Collins**, Georgetown College, former Governor of Kentucky; **Wendell Ford**, former Governor and U.S. Senator; **Nancy Jo Kemper**, Executive Director, Kentucky Council of Churches; **Kris Kimmel**, President, Kentucky Science and Technology Corporation; **James Klotter**, Professor and State Historian; **Sylvia Lovely**, Executive Director, Kentucky League of Cities; **Gerald Smith**, Professor and Director, African American Studies and Research at UK; and **Jane Stephenson**, founder, former director of the New Opportunity School for Women in Berea and civic leader.



**LUNCH AND SPEAKER 12:15–1:30 p.m.**

**Dr. C. Eugene Steuerle.** Louisville native Dr. C. Eugene Steuerle is a



Senior Fellow with the highly respected Urban Institute based in Washington, D.C., where he has done extensive research on budget and tax policy, Social Security, charitable sector issues, health care, and welfare reform. Dr. Steuerle is the author of a weekly column, "Economic Perspective" for *Tax Notes* magazine, eight books, more than 125 reports and articles, 500 columns, and 45 congressional testimonies or reports. He chairs the

Technical Panel advising Social Security on its methods and assumptions for fiscal projections. Prior to joining the Urban Institute, he served with the Reagan administration. He will discuss the future of Social Security and explore some of the ways that state governments and the nonprofit sector may be affected.

**CONCURRENT SESSIONS 1:45–3:30 p.m.**

**1. What does the aging of Kentucky's population portend for the future?** An analysis of the Kentucky Retirement Survey, a 2000 statewide survey of Kentuckians 45 and older that assesses the financial preparedness, health status, and retirement plans of the state's current and upcoming retirees.

**Moderator:** Graham D. Rowles, Professor, Associate Director for Behavioral Sciences, Sanders-Brown Center on Aging, University of Kentucky

**Panelists:** Thomas Ford, Professor Emeritus of Sociology, University of Kentucky; Lt. Governor Stephen L. Henry; John Watkins, Director of Graduate Studies, Gerontology and Associate Professor, Department of Geography, University of Kentucky; Rep. Susan Westrom, Kentucky General Assembly; Sen. Jack Westwood, Kentucky General Assembly

**2. What trends are affecting postsecondary education and how can we improve our education status?** This panel will present and discuss results from the Center's multifaceted project on the future of postsecondary education in Kentucky, which includes:

- a cost-benefit analysis of the many public returns to investment in postsecondary education;
- a survey of Kentucky high school students about time management, attitudes, postsecondary decision making and planning, and other issues;
- a comparative case study of high schools with widely varying postsecondary experiences; and,
- an examination of teacher transcripts to determine if teacher "quality" affects student performance.

**Moderator:** Stephen Clements, Assistant Professor, Department of Educational Policy Studies and Evaluation, University of Kentucky

**Panelists:** Melissa Evans-Andris, Professor, Department of Sociology, University of Louisville; Edward W. "Skip" Kifer, Professor, Department of Educational Policy, University of Kentucky; Sue Moore, Executive Vice President, Council on Postsecondary Education

**3. How can Kentucky create an entrepreneurial economy?** The Kentucky Science and Technology Corporation discusses the Kentucky Science and Technology Strategy and the factors needed to cultivate a thriving entrepreneurial economy here.

**Moderator:** Joanne Lang, Vice President, Kentucky Science and Technology Corporation

**Panelists:** James C. Seiffert, Attorney at Law, Stites and Harbison; Randall S. Stevens, President, ArchVision

**REGISTER NOW**

NAME \_\_\_\_\_

ORGANIZATION \_\_\_\_\_

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**CHOOSE ONE OF THE FOLLOWING:**

- \_\_\_ Registration faxed or postmarked by November 3, 2000— \$45
- \_\_\_ Registration after November 3, 2000— \$55
- \_\_\_ Student Registration— \$10
- \_\_\_ Group Rate (Each 5th attendee is free when registration is submitted with copies of 4 other paid registrations.)

**I PLAN TO ATTEND**

- \_\_\_ Monday and Tuesday, November 13 and 14, 2000
- \_\_\_ Monday, November 13, 2000 only
- \_\_\_ Tuesday, November 14, 2000 only

**HELP US PLAN Which sessions do you prefer?**

**Monday, November 13, 2:15 pm to 3:15 pm**

- \_\_\_ Government's Role in the New Economy
- \_\_\_ Transitioning from "Bricks and Mortar" to "Clicks and Mortar"

**Monday, November 13, 3:30 pm to 4:30 pm**

- \_\_\_ Educating New Economy Citizens
- \_\_\_ Digital Divide

**Tuesday, November 14, 1:45 pm to 3:30 pm**

- \_\_\_ What does the aging population portend for the future?
- \_\_\_ What is the future of postsecondary education in Kentucky?
- \_\_\_ How can Kentucky create an entrepreneurial economy?

**STATE EMPLOYEES**

MARS Agency # \_\_\_\_\_

Interaccount Contact Person \_\_\_\_\_

Telephone \_\_\_\_\_

E-Mail \_\_\_\_\_

**ANY SPECIAL NEEDS?**

(Dietary or Other) \_\_\_\_\_

**Simply copy this registration form as many times as needed and mail or fax the completed form, with or followed by a check or money order made payable to Kentucky Long-Term Policy Research Center, to the Center at:**

111 St. James Court  
Frankfort, KY 40601-8486  
Fax: 502-564-1412 or 800-383-1412

... or register online at:

[www.kltprc.net/conference2000.htm](http://www.kltprc.net/conference2000.htm)

**CANCELLATION, REFUND AND SUBSTITUTION POLICIES**

Cancellations received after November 3, 2000, will not be refundable. Substitutions are welcome. "No shows" will be charged the full registration fee.

# Scanning Kentucky

*Emerging trends and issues that may affect the Commonwealth's future*

## High Drug Costs Trouble Patients and Providers

**Critics of the pharmaceutical industry**, according to a recent article in *State Health Notes*, point to a 40 percent hike in the cost of prescriptions over the past 5 years and an 18.5 percent return on gross revenues in 1998 alone. The profit, they contend, is out of line with economic indicators. High drug costs are especially problematic for older citizens who live on fixed incomes and must choose between necessities and life-saving drugs.



The pharmaceutical industry counters that its critics are ignoring the high cost of research and development needed to make new drugs available. Were they enacted, price controls would not accommodate these costs. Instead, the industry advocates drug coverage for 18 percent of Americans, mostly elderly Medicare recipients who cannot afford supplemental policies.

States are not waiting for federal answers. Maine now acts as a pharmacy benefits manager, negotiating rebates and discounts for 300,000 uninsured residents much as an HMO would. Combined with Medicaid rebates—states receive 15.1 percent off a drug's actual or best price to other customers—and a drug assistance program for seniors to 185 percent of the poverty level, the program plans to expand coverage to 500,000 residents. Drug makers that charge unreasonable prices can be fined. If negotiated discounts do not work, a price control mechanism will activate in 2003.

Other state-level drug benefit initiatives include: (1) expanding existing assistance programs for seniors; (2) increasing the number of federally qualified health centers that can buy drugs on the federal price schedule; (3) promoting generic drugs; and (4) educating doctors on the effective use of drugs. Finally, states are pursuing interstate compacts or other regional approaches.

**Implications for Kentucky.** As the needs of disproportionately poor older Kentuckians for lifesaving and quality-of-life enhancing drugs continue to go unmet or at costs that compromise other necessities, the pressure for state responses is likely to increase. Kentucky can learn from state responses like Maine's program whether drug coverage for seniors ultimately helps lower costs to Medicaid by managing chronic conditions that, if left untreated, are likely to result in very costly medical emergencies.

## Literacy Gaps Hamper Industry Growth

**Lewis County's April unemployment rate** was 16.9 percent, the state's highest, according to a recent article in *The Courier-Journal*. While much of the rest of the state enjoys the lowest jobless rate in 30 years, an undereducated population has hindered the county's development, said Shirley

Kidwell, coordinator of the Lewis County Adult Literacy Council. Because nearly half the adults in Lewis County have less than a ninth-grade education and minimal or no functional literacy skills, it is difficult to grow or attract industry. Lewis County is just one of several Kentucky counties where workers are caught in a "Catch 22" of sorts. They do not pursue education because the jobs that would reward such pursuits are unavailable, but industry will not locate in the area unless and until it has a more educated workforce.



A state task force reports that 40 percent of the 2.4 million Kentuckians of working age read very poorly if at all. Most companies are reluctant to hire factory workers who cannot read instructions, warning labels, and other important communications. School systems, which are often the principal employer in rural counties, require a GED for any job.

**Implications for Kentucky.** Because only 50,000 people—5 percent of those eligible—participate in state literacy and adult-education programs, state decisionmakers have allocated funds to revamp adult education, from communicating more effectively with its likely customers to fundamentally restructuring the delivery system. If the resolve to "think outside of the box" succeeds, the state could begin to close some of the gaps in educational status among working-age Kentuckians, who need high school credentials to gain access to training and education—and higher earnings.

## Welfare Reform Pays Unexpected Dividends

**Minnesota's welfare reform efforts are paying unexpected dividends**, according to a new study by the Manpower Demonstration Research Corporation, a nonprofit, nonpartisan research center. *The New York Times* reports that the study found "remarkable changes in family life," evidenced by reduced incidences of domestic violence which declined by 18 percent; increased rates of marriage—up 50 percent; and reported improvements in the performance and behavior of children in school.



Though Minnesota's generous approach to welfare reform has few if any parallels in other states, this study suggests that its generosity is paying off. Researchers found that the incentives-to-work approach not only produced higher family incomes but also increased family stability, one of the expressed goals of welfare reform. Minnesota does not count 38 percent of the monthly earnings of recipients who return

to the labor force as an incentive to work. While the generous approach has paid off, it raises questions about costs over the long term and about the ability to sustain such an initiative in the event of an economic downturn.

In the past few years, however, these researchers were surprised by the magnitude of the changes they found:

- The share of welfare recipients with jobs rose 35 percent; half of recipients in Minnesota now work.
- Earnings among recipients increased by 23 percent to an average of nearly \$8,000 a year for each working person.
- The average income rose 15 percent to \$10,800 a year.
- The proportion of recipients with health insurance rose from 61 percent to 69 percent.

**Implications for Kentucky.** The architects of welfare reform in Kentucky may want to look more closely at this study and its implications as they formulate plans for the future. If providing generous incentives consistently yields positive family outcomes that are evident in the school performance of children, for example, the larger benefits to society could endure for many years to come.

### Jobs of the Future Demand Postsecondary Education

**Americans do not have the education they need for tomorrow's jobs,** a *Futurist* article concludes. Many



economists believe that 70 percent of the good jobs in the future will not require a college degree, but will require some form of additional training and education, such as an associate degree or technical training certificate. Nationally, it is estimated that businesses will need more than 1 million high-tech workers by mid-decade. The Workforce Development Cabinet estimates that job growth in occupations requiring education and training beyond high school will increase their share of total employment between 1996 and 2006.

The transition will be a difficult one for the Commonwealth. In addition to its educational limitations, much of the state's economy remains anchored to the past. Research shows a close parallel between the trajectory of per capita income and industrial composition; the closer the convergence with industrial composition among regions or states, the more likely per capita incomes will also converge. A recent *Survey of Current Business* analysis of changes in the industrial composition of states between 1958 and 1998 finds that Kentucky receives a larger share of earnings from farms, mining, manufacturing, transportation and public utilities, and retail trade than the nation as a whole. At the same time, it receives a much smaller share of earnings from finance, insurance and real estate, and services. Although Kentucky has reduced its dependence on farming and mining, earnings from manufacturing remained virtually unchanged over the 40-year period examined, compared to a national decline of 11.3 percent. Overall, this analysis ranked Kentucky 33rd in terms of its alignment with or similarity to U.S. industrial composition, compared to 38th in 1958. Per capita income in Kentucky

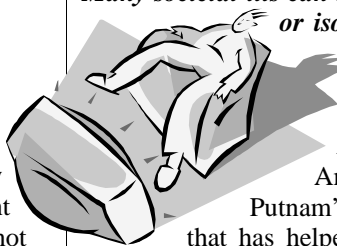
converged from 73 percent of the U.S. average in 1958 to 81 percent in 1999, but it ranked 42nd nationally in 1999. In 1958, it ranked 43rd.

The *Monthly Labor Review* reports that workers at the lower and upper ends of the wage distribution saw their earnings increase over the decade, but mid-level wage earners made no gains in real earnings due to losses during the early part of the decade. Those in the highest earnings group saw their median income rise 6.3 percent over the decade while those in the lowest income group realized the highest wage gain over the decade, 11.6 percent after inflation.

**Implications for Kentucky.** Though workers in the lowest income group have realized wage gains in the 1990s, they have not compensated for past wage stagnation. Postsecondary education remains the ticket to higher earnings. Without it, most workers have few options beyond subsistence wages.

### Is Growing Isolation at Root of Social Ills?

**Many societal ills can be traced to alienation, indifference, or isolation,** Robert Putnam asserts in his newest book, *Bowling Alone*, as reviewed by the *Boston Globe* and reported by the *Lexington Herald-Leader*. "The collapse and revival of American community" is the subtitle of

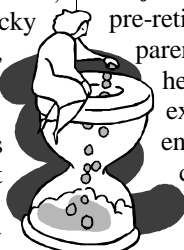


Putnam's survey of the sociological erosion that has helped atomize Americans from one another since the 1950s. "My message is that we desperately need an era of civic inventiveness to create a renewed set of institutions and channels for a reinvigorated civic life that will fit the way we have come to live. Our challenge now is to reinvent the 21st century equivalent of the Boy Scouts or the settlement house or the playground or Hadassah or the United Mine Workers or the NAACP," says Putnam, who observes that reconnecting with friends and neighbors "will be good for us." "Every 10 percent of added commuting time reduces by one-tenth the amount of social interaction," Putnam told National Public Radio. But watching television, he concludes, is probably the biggest single contributor—perhaps 25 percent of the total—to social disintegration. "People now watch *Friends* instead of having friends."

**Implications for Kentucky.** If the somewhat controversial role of social capital is as important as Putnam concludes, civic education and service learning should become an integral part of school curricula at every level. Moreover, at every level, government should make increased civic engagement a top public priority.

### Female Boomers Shoulder More, Receive Less

**The first of the 40 million female Baby Boomers** to reach pre-retirement age are facing responsibilities for the care of parents and worries about future prospects for their own health care. Two thirds of women between 40 and 50 expect to be responsible for an elderly relative or parent in the next 10 years. Women account for 80 percent of the 23 million Americans who care for the elderly, and one third of these caregivers must significantly curtail their careers by taking leaves of



absence, reducing job hours, turning down promotions, retiring early, or even quitting in mid-career.

What's more, women still face discrimination in the workplace and skimpy health and elder care benefits, according to a recent *Lexington Herald-Leader* article. The average woman earns only 74 cents for every \$1 a man earns, is less likely to have a personal pension plan, and, because she took time from work to raise children, the amount of Social Security she will receive will be reduced accordingly. Also, the number of midlife women who are divorced, never married, or childless is at a record high. As a consequence, they may need to rely more heavily on public programs as they age.

On the brighter side, many Boomer women are reshaping organizational life by forming alliances to serve their needs. They are well informed and concerned at the lack of employer and government-sponsored support programs, such as time off for caregiving. And their activism is likely to increase. Half the women of retirement age in 2020 will have a college education and will have worked their entire adult lives.

**Implications for Kentucky.** Because older women are more likely to be poor here and those in the labor force are concentrated in low-paying jobs, these issues may be more acute in Kentucky. As Boomer women age, the fiscal capacity of Medicaid and other aging services may be strained. Conversely, women have become a potent political force. Politicians who ignore issues of importance to them do so at their own peril: Women are more likely to vote, and they typically support platforms that are responsive to their needs.

## Tobacco Buyout Is Sign of the Times

*Under mounting pressure from a society that views tobacco as poison and smoking as taboo,*



*nearly 90 percent of Maryland tobacco farmers say they will take a government buyout later this year, according to a recent article in *The Courier-Journal*. Stunned agriculture officials are hailing the news as a victory for Gov. Parris Glendening, who*

vowed in January to “(close) the book on Maryland's history as a tobacco state.” Maryland will become the first state to voluntarily abandon the once-lucrative crop. Tobacco farmers nationwide are struggling financially, squeezed by declining domestic consumption and a growing reliance on cheap foreign leaf. The Maryland buyout, proposed by the farmers themselves, seems to offer a lifeline. In exchange for their promise to stop growing tobacco, the state will support farmers over the next decade, paying \$1 annually for every pound of tobacco they grew in 1998. A man with 30 acres could count on a pre-tax income of around \$50,000 annually.

**Implications for Kentucky.** While Kentucky lacks the fiscal capacity to emulate Maryland's tobacco buyout, the action by this state government is indicative of the depth of public animosity toward tobacco products. With cigarette consumption falling worldwide, the fortunes of tobacco growers are almost certain to continue declining. *✍*

# FORESIGHT

## KENTUCKY

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